

Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Benton Township - Pottsville District Library	County Eaton
Fiscal Year End 6/30/05	Opinion Date 4/14/06	Date Audit Report Submitted to State 6/5/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

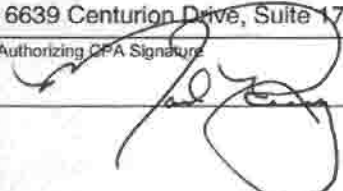
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☐ ☒ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.		Telephone Number 517-323-9500	
Street Address 6639 Centurion Drive, Suite 170		City Lansing	State Zip MI 48917
Authorizing CPA Signature 		Printed Name Mark Perry	License Number 1101018885

**Benton Township –
Potterville District Library**

Potterville, Michigan

**Annual Financial Statements
and
Auditors' Report**

June 30, 2005

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
BASIC FINANCIAL STATEMENTS	
Governmental Fund Balance Sheet/Statement of Net Assets	2
Statement of Governmental Revenue, Expenditures and Changes in Fund Balance - Statement of Activities	3
Notes to Financial Statement s	4 - 7
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	8



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Independent Auditors' Report

To the Board of Directors
Benton Township – Potterville District Library
Potterville, Michigan

We have audited the accompanying basic financial statements of the Benton Township – Potterville District Library as of and for the year ended June 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Benton Township – Potterville District Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Benton Township – Potterville District Library as of June 30, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and related statements as of July 1, 2003. The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Yeo & Yeo, P.C.

Lansing, Michigan
April 14, 2006

Benton Township - Potterville District Library
Governmental Fund Balance Sheet/Statement of Net Assets
June 30, 2005

	General Fund - Modified Accrual Basis	Adjustment (Note 5)	Statement of Net Assets - Full Accrual Basis
Assets			
Cash and cash equivalents	\$ 33,401	\$ -	\$ 33,401
Accounts receivable	835	20,449	21,284
Capital assets, net of accumulated depreciation of \$ 304,492	-	232,717	232,717
Total assets	<u>\$ 34,236</u>	<u>\$ 253,166</u>	<u>\$ 287,402</u>
Liabilities and fund balance/net assets			
Liabilities			
Accounts payable	\$ 4,618	\$ -	\$ 4,618
Long-term liabilities - current	-	7,928	7,928
Long-term liabilities - long-term	-	77,503	77,503
Total liabilities	<u>4,618</u>	<u>85,431</u>	<u>90,049</u>
Fund balance/net assets			
Investment in capital assets, net related debt	-	167,735	167,735
Unrestricted	<u>29,618</u>	<u>-</u>	<u>29,618</u>
Total fund balance/net assets	<u>29,618</u>	<u>167,735</u>	<u>197,353</u>
Total liabilities and fund balance/net assets	<u>\$ 34,236</u>	<u>\$ 253,166</u>	<u>\$ 287,402</u>

See accompanying notes to financial statements

Benton Township - Potterville District Library
Statement of Governmental Revenue, Expenditures and
Changes in Fund Balance - Statement of Activities
For the Year Ended June 30, 2005

	General Fund - Modified Accrual Basis	Adjustments (Note 5)	Statement of Activities - Full Accrual Basis
Revenues			
Taxes	\$ 53,947	\$ -	\$ 53,947
State aid	2,128	-	2,128
Rental fees	1,339	-	1,339
Penal fines	18,310	2,139	20,449
Interest	91	-	91
Contributions and miscellaneous	3,903	-	3,903
Total revenues	<u>79,718</u>	<u>2,139</u>	<u>81,857</u>
Expenditures			
Salaries	24,282	-	24,282
Board expenses	380	-	380
Books	3,511	(3,511)	-
Tapes	171	(171)	-
Supplies	2,220	-	2,220
Repairs and maintenance	842	-	842
Professional services	3,661	-	3,661
Program expense	229	-	229
Dues and subscriptions	2,170	-	2,170
Telephone	909	-	909
Utilities	2,233	-	2,233
Insurance	3,366	-	3,366
Payroll taxes	2,249	-	2,249
Depreciation	-	14,574	14,574
Miscellaneous expenses	715	-	715
Debt service			
Principal retirement	7,580	(7,580)	-
Interest and fiscal charges	4,030	-	4,030
Total expenditures	<u>58,548</u>	<u>3,312</u>	<u>61,860</u>
Revenues over (under) expenditures/ change in net assets	<u>21,170</u>	<u>(1,173)</u>	<u>19,997</u>
Fund balance/net assets - beginning	8,448	150,598	159,046
Prior period adjustment (Note 6)	<u>-</u>	<u>18,310</u>	<u>18,310</u>
Fund balance/net assets - beginning, as restated	<u>8,448</u>	<u>168,908</u>	<u>177,356</u>
Fund balance/net assets - ending	<u><u>\$ 29,618</u></u>	<u><u>\$ 167,735</u></u>	<u><u>\$ 197,353</u></u>

See accompanying notes to financial statements

Benton Township – Potterville District Library

Notes to Financial Statements

June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Benton Township – Potterville District Library (the Library) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the Library:

ORGANIZATION

The Library was established on November 13, 1989, by a district library agreement between the Township of Benton and the City of Potterville pursuant to the District Library Establishment Act. The Library's boundaries include the City of Potterville, Michigan and the Township of Benton, Michigan. The Library is funded through a tax levy on property located within the district, penal fines, fees, contributions, and state aid.

REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Accordingly, there are no component units to be included in the Library's financial report.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The Library has one fund, the General Fund, which is the Library's primary operating fund. The General Fund is budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

In addition to presenting information for the General Fund, the statements combine all fund activity and present information for the Library as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Benton Township – Potterville District Library

Notes to Financial Statements

June 30, 2005

BUDGET INFORMATION

The annual budget is prepared by Library management and adopted by the Library Board of Trustees; subsequent amendments are approved by the Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

Public Act 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. A local unit is not considered in violation of the Act if reasonable procedures are in use by the Library to detect violations. The Act requires expenditures to be budgeted on a functional basis. Expenditures in violation of the Act are disclosed as being over budget on the required supplemental information – budgetary comparison schedule of the general fund on page 8.

FINANCIAL STATEMENT AMOUNTS

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand and short-term investments with a maturity of three months or less when acquired.

Capital Assets - Generally, capital assets are defined by the Library as assets with an initial cost of more than \$ 500 and an estimated useful life in excess of two years. Such assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Library books, CDs, tapes, videos and DVDs which comprise the Library's collection are recorded as assets using various estimating techniques. Because of their nature and relevance to the Library's operations, they are capitalized despite individually being below the \$ 500 capitalization threshold.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other cost incurred for repairs and maintenance are expensed as incurred.

Depreciation on capital assets is charged as an expense against the operations on a straight-line basis over the following estimated useful lives:

Building	30	years
Furniture and equipment	3 - 10	years
Books and videos	7	years

Benton Township – Potterville District Library

Notes to Financial Statements

June 30, 2005

Property Taxes - Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1 of the following year. These taxes are due on September 15 with the final collection date of February 28 before they are added to the country tax rolls. The Library's property tax revenue for the fiscal year ended June 30, 2005 is based on the 2004 levy, which was billed July 1, 2004. The 2004 taxable value totaled \$ 108,863,150 ; the Library's millage rate was .4709 mills, which resulted in property tax billings of \$ 51,264.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Change in Accounting - During the current year, the Library adopted GASB issued Statement No. 34, *Basic Financial Statements - for State and Local Governments*. As a result, these financial statements include a full accrual accounting for all of the Library's activities.

NOTE 2 - CAPITAL ASSETS

A summary of the changes in capital assets follows:

<u>Capital Assets Being Depreciated</u>	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
Building	\$ 216,423	\$ -	\$ -	\$ 216,423
Furniture and equipment	50,066	-	-	50,066
Books and videos	<u>267,038</u>	<u>3,682</u>	<u>-</u>	<u>270,720</u>
Total	533,527	3,682	-	537,209
Accumulated depreciation	<u>(304,492)</u>	<u>-</u>	<u>-</u>	<u>(304,492)</u>
Net book value	<u>\$ 229,035</u>	<u>\$ 3,682</u>	<u>\$ -</u>	<u>\$ 232,717</u>

Capital assets, including library books, periodicals, CDs, tapes and DVDs, are recorded at cost. Depreciation expense was \$ 14,574 for the year ended June 30, 2005.

Benton Township – Potterville District Library

Notes to Financial Statements

June 30, 2005

NOTE 3 - LONG-TERM DEBT

On August 21, 2002, the terms of the library building loan were amended, lowering the interest rate from 5.750% to 4.500% and extending the term through August 21, 2007. Under the new terms, the loan is payable in monthly installments of \$ 967.53 with a balloon payment for the balance of the loan with interest being due on August 21, 2007.

Aggregate maturities of long-term debt are summarized as follows:

<u>Year ended</u>	<u>Amount</u>
June 30, 2006	\$ 7,928
June 30, 2007	8,292
June 30, 2008	<u>69,211</u>
Total	<u>\$ 85,431</u>

NOTE 4 - RISK MANAGEMENT

The Library is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Library participates in the Michigan Municipal League program for claims relating to workers' compensation, general liability, and property loss. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 5 - RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's General Fund differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance.

NOTE 6 - PRIOR PERIOD ADJUSTMENTS

The penal fines received by the Library each year are actually for the prior year collections. Under the full accrual accounting basis, a receivable should be recorded for this amount each year. As a result, the ending fund balance, using the full accrual basis, at June 30, 2004 was understated by \$18,310. The corrections have been reflected in the June 30, 2004 fund balances/net assets which are shown as being restated on the 2004 audited financial statements.

Required Supplementary Information

Benton Township - Potterville District Library
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2005

	Original and Final Budget	Actual Balances	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 50,375	\$ 53,947	\$ 3,572
State aid	1,500	2,128	628
Fees	1,500	1,339	(161)
Penal fines	17,500	18,310	810
Interest	45	91	46
Contributions and miscellaneous	200	3,903	3,703
Total revenues	71,120	79,718	8,598
Expenditures			
Salaries and benefits	27,000	24,282	2,718
Board expenses	1,500	380	1,120
Books	4,570	3,511	1,059
Tapes	400	171	229
Equipment	1,500	-	1,500
Supplies	3,490	2,220	1,270
Repairs and maintenance	1,000	842	158
Professional services	4,000	3,661	339
Program expense	-	229	(229)
Dues and subscriptions	3,800	2,170	1,630
Telephone	800	909	(109)
Utilities	2,650	2,233	417
Insurance	3,400	3,366	34
Payroll taxes	5,400	2,249	3,151
Miscellaneous expenses	-	715	(715)
Debt service	11,610	11,610	-
Total expenditures	71,120	58,548	12,572
Revenues over (under) expenditures/ change in net assets	\$ -	21,170	\$ 21,170
Fund balance/net assets - beginning		8,448	
Fund balance/net assets - ending		<u>\$ 29,618</u>	

See accompanying notes to financial statements



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To the Board of Directors
and management
of Benton Township – Potterville District Library

In planning and performing our audit of the financial statements of the Benton Township – Potterville District Library (the Library) for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Library's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions that we do not believe to be material weaknesses.

Use of QuickBooks Software

At present, the Library uses QuickBooks software to manage the general ledger and payroll functions. QuickBooks is user friendly and meets the Library's need to keep the accounting system simple. However, the system allows but does not require a "close" of each month. If this close function is not used, transactions can be backdated to the prior period, thus changing the previously reported financial statements. Therefore, we recommend that the Organization implement QuickBooks' close feature monthly, including restricting access to prior-period data, or consider changing to a system that does require a monthly close. The Organization needs consistent accounting information. Adjustments to prior periods negate the validity of historical information. A monthly close will eliminate the ability to backdate. In addition, QuickBooks allows the user to change various aspects of the recorded data which could potentially have an adverse effect on the Library's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. In addition, the account numbers function is not being used in QuickBooks causing the Library to not be in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.

During our audit report we also became aware of several matters that are opportunities for strengthening internal controls and operating efficiency.

Segregate Cash Disbursements Responsibilities

In reviewing procedures and controls related to cash disbursements functions, we noted that the Treasurer has more responsibility than is optimal. For instance, the Treasurer signs checks, receive and review unopened bank statements and cancelled checks, and performs bank reconciliations. This condition could provide an opportunity for misappropriation of funds and concealment of such activity. In order to mitigate this condition, we recommend that someone other than the Treasurer receive and review unopened bank statements and cancelled checks. This control usually takes no more than an hour each month and provides a supervisory control that can help prevent or detect improper or unauthorized disbursements. Note that this comment is not meant to imply that we identified unauthorized disbursements, but that additional controls could reduce the risks.

Cancel, Initial, and Properly File Invoices Being Paid

We believe that controls over cash disbursements could be improved by performing the following procedures when paying bills:

- Cancel invoices by indicating the date paid, check number, account number, etc. on the invoice.
- Have the person signing the check initial the invoice to indicate review of the invoice.
- File paid invoices in a manner that makes them easily accessible.

These procedures will help prevent unauthorized payment of invoices or invoices from being paid twice.

Review Functions of Bank Accounts

At present, the Library maintains 5 checking and savings accounts. Many of the accounts were established for narrow purposes and have few transactions and small balances. We recommend that the board periodically review the functions of all bank accounts to determine whether they are necessary. Only the minimum number of bank accounts consistent with operating requirements should be established. Numerous bank accounts result in complexity and inefficient administration. Time needed to record accounting transactions, as well as time and fees incurred in auditing and accounting services, could be reduced if the Library eliminated or combined bank accounts when possible.

Maintain Voided Checks

We noted that checks that have been voided are not being kept. This is an important control procedure to ensure that checks shown in the accounting records as voided are recorded correctly. We recommend that the board adopt a policy requiring all voided checks to be kept.

Establish Controls over Cash Receipts

Our review of the Library's procedures indicated that there is a lack of control in the receiving, depositing, and recoding of cash receipts. To provide effective control it would be necessary to separate each of these duties, as well as the reconciling of the bank accounts, whereas at the present time the Treasurer's duties include all of these functions to some degree. Since the Board has informed us that it would not be practicable to separate each of these duties, it would appear advisable to at least set up some form of control on cash receipts, such as a list of remittances received to be prepared at the time the mail is opened, and the use of either prenumbered receipts or cash registers by all employees receiving cash. In addition, checks should be endorsed "For Deposit Only" upon receipt to prevent misappropriation.

Maintain Records of Additions to and Deletions from the Library's Collection

We noted that updated records of the books and other items in the library's collection are not being maintained. Using the new computer system to keep track of additions and deletions of books and tapes within the library's collection would assist the library in maintaining control over asset values and provide a means whereby information pertinent to the assets within the collection can be kept up to date.

A number of the above issues have been addressed subsequent to June 30, 2005. This letter is intended to address the areas for improvement noted during the audit. Since the above recommendations were not received or enacted until after June 30, 2005, they have been restated.

This report is intended solely for the information and use of the Library's Board of Directors, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

April 14, 2006